

# Idaho Economic Forecast

DIRK KEMPTHORNE, Governor

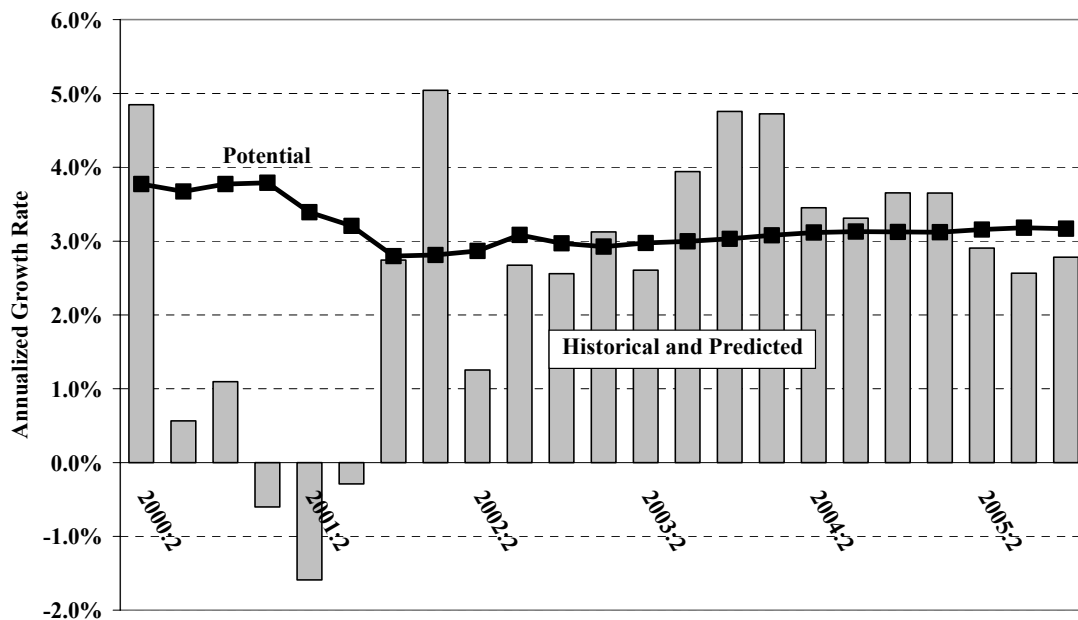
Division of Financial Management

Vol. XXIV, No. 4  
October 2002

ISSN 8756-1840

- Forecast 2002-2005
- The Role of Fiscal Policy
- Alternative Forecasts

## U.S. Real GDP Growth



Source: DRI\*WEFA

**IDAHO  
ECONOMIC  
FORECAST  
2002 - 2005**

State of Idaho  
DIRK KEMPTHORNE  
Governor

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01-10/385/010200-180-4001

## PREFACE

Idaho's economy continues to grow and evolve as it enters the 21<sup>st</sup> Century. The 1980s was a decade of stop-and-start economic performance. However, it also ushered in one of the longest expansions in the state's history. Since 1987, nonfarm employment has expanded in every year and consistently placed Idaho among the top ten fastest growing states in the nation. The 1990s saw a flood of new residents move into the state, causing the population to expand by an astounding 29% from 1990 to 2000. Over this period Idaho personal income nearly doubled. Much of the current expansion results from ongoing structural changes in Idaho's economy.

One of the biggest changes is the rise of the state's high-technology sector. Virtually nonexistent in the 1970s, this sector achieved critical mass in the 1990s to become the state's largest manufacturing employer. The growth of industry giants, such as Micron Technology and Hewlett-Packard, as well as the emergence and expansion of smaller companies, pushed payrolls above even the most optimistic forecasts made in the 1980s. The state's trade sector has also been going through a transformation. The last decade witnessed an influx of national "big box" merchandisers. During this same time, Idaho merchants successfully reached beyond the state's borders. Several regional shopping centers were established that serve locals, as well as attract shoppers from other states and Canada. Visitors fueled the surge in tourism that also benefited trade. Like its national counterpart, the service sector accounts for most of the nonfarm jobs in Idaho. Tourism has also been a boon to the service industry. While traditional factors, such as increasing discretionary income, continue to fuel the demand for services, other influences have emerged. For example, the use of temporary employees in manufacturing has bolstered business services employment. Idaho's outstanding work force has been a major factor in attracting call centers, back office operations, and credit companies.

While many changes are taking place today, traditional resource industries still play a major role in Idaho's economy. Indeed, the state's mining, agriculture, and timber sectors all experienced lulls in the late 1990s. While displaying more resilience to downturns than in the past, these industries are not totally immune from business-cycle effects. This continuing dependence on natural resources will bring a host of challenges to Idaho. These challenges include competition among agriculture, fisheries, and expanding population, for water and energy; the environmental impacts of the economically important mining, timber, agricultural, and tourism industries; and the many other pressures of an expanding population on the state's natural and fiscal resources.

Other factors that are external to the state's economy will present challenges this decade to public and private decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Engineering and Environmental Laboratory and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

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## INTRODUCTION

The national forecast presented in this publication is the October 2002 DRI\*WEFA baseline forecast of the U.S. economy. The previous *Idaho Economic Forecast* is based on the July 2002 DRI\*WEFA baseline national forecast.

The cover graph compares the expected performance of real GDP over the forecast period to its estimated potential. Two things are clear in the graph. First, a look at the predicted real GDP shows it is expected to grow over the forecast period. Or, in other words, the economy is not expected to slip into a double-dip recession. Second, while the economy is projected to grow, it will advance slower than its potential through the first half of next year. After that, real GDP is anticipated to enjoy several quarters of above average growth.

## FEATURE

The current recession and the 1990–1991 recession offer contrasting examples of the use of fiscal policy, and they also highlight some elements of the longstanding debate in economics over whether fiscal policy can play a useful role in combating business cycle downturns. During the last U.S. recession, in 1990, then President George H.W. Bush resisted attempts to use fiscal policy to stimulate the economy. In contrast, during the current recession, both Congress and the President have supported increases in expenditures and tax cuts as ways to stimulate economic growth, culminating in the passage of the Economic Recovery Act in March 2002. The feature article in this edition of the *Idaho Economic Forecast* provides as an excellent primer on some of the issues involved in using fiscal policy to help stabilize short-run fluctuations in the economy. This article was written by Carl E. Walsh. He is a Professor at the University of California, Santa Cruz and a Visiting Scholar at the Federal Reserve Bank of San Francisco.

## THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. DRI\*WEFA examines the effects of different economic scenarios, including the potential impacts of international recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are included in this report.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1986 to 2005 and for every quarter from 2000 through 2005. The solution of the Idaho Economic Model (IEM) for this forecast begins with the third quarter of 2002.

Descriptions of the DRI\*WEFA U.S. Macroeconomic Model and the IEM are provided in the Appendix. Equations of the IEM and variable definitions are listed in the last pages of this publication.

## CHANGES

The employment numbers that appear in this publication are based on monthly data collected by the Idaho Department of Labor. The data through the first quarter of this year are final and the second quarter numbers are estimates. All of these data have been seasonally adjusted and converted into quarterly estimates by the Division of Financial Management (DFM). These current data show that Idaho nonfarm

employment in the first quarter of 2002 was nearly 1,700 lower (0.3%) than had been forecast in July 2002. However, the second quarter of 2002 estimates show Idaho nonfarm employment was about 6,700 lower (1.2%) than had been previously forecasted.

The tables in this forecast include the U.S. Department of Commerce's Bureau of Economic Analysis (BEA) estimates of Idaho quarterly personal income through the second quarter of 2002. In addition to the 2002 second quarter income estimates, the historical Idaho quarterly income estimates since 1999 were also revised. The BEA will release its next Idaho personal income estimates in late January 2003.

The *Idaho Economic Forecast* is available on the Internet at [http://www.state.id.us/dfm/econ\\_pub.html](http://www.state.id.us/dfm/econ_pub.html). Readers with any questions should contact Derek Santos at (208) 334-3900 or at [dsantos@dfm.state.id.us](mailto:dsantos@dfm.state.id.us).

## SUBSCRIPTIONS

You can access the *Idaho Economic Forecast* for free at [http://www.state.id.us/dfm/econ\\_pub.html](http://www.state.id.us/dfm/econ_pub.html).

Printed copies of the *Idaho Economic Forecast* may be requested by contacting:

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